

CIA/OSR /MEMO EF 75 1008 CHINESE DEFENSE SPENDING
SECRET

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CIA/OSR

MEMO EF 751008

Author: [REDACTED] 25X1A
Branch: EF/P
Phone: x6926
Date: 8 October 1975

D/OSR Approval:

Classification: SECRET

Cable for : [REDACTED]

Reference : [REDACTED] 25X1A

1. OUR ESTIMATES OF CHINESE DEFENSE SPENDING ARE SUBJECT TO A NUMBER OF UNCERTAINTIES AND SHOULD BE TREATED ONLY AS ROUGH APPROXIMATIONS. WE CALCULATE THAT CHINESE MILITARY FORCES AND PROGRAMS WOULD COST \$US 25 TO 30 BILLION ANNUALLY IF PURCHASED AND OPERATED IN THE US. THIS SHOULD NOT BE COMPARED WITH GNP ESTIMATES BECAUSE OF DIFFERENCES IN METHODOLOGIES. WHEN THE PROPER ADJUSTMENTS ARE MADE, WE BELIEVE THE DEFENSE SHARE OF GNP TO BE SOMETHING LESS THAN 10 PERCENT.

2. MEASURED IN DOLLAR TERMS, THE SHARE OF TOTAL SPENDING APPORTIONED TO EACH SERVICE IS MISLEADING DUE TO OVERPRICING PERSONNEL. A BETTER MEASURE IS THE ALLOCATION OF PROCUREMENT COSTS. OF THE ESTIMATED \$US 3 TO 4 BILLION IN ANNUAL PROCUREMENT COSTS

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(EXCLUDING THE \$US 1 TO 2 BILLION ESTIMATED FOR RDT&E), WE FIND THAT THE ARMY RECEIVES ABOUT 35 PERCENT, THE NAVY 30 PERCENT, THE AIR FORCE 25 PERCENT, AND COMMAND AND GENERAL SUPPORT 10 PERCENT. CONSTRUCTION OF MILITARY FACILITIES IS BELIEVED TO COST LESS THAN \$US 1 BILLION YEARLY.

3. WE AGREE [REDACTED] THAT THERE HAS BEEN LITTLE INCREASE IN DEFENSE SPENDING AND THAT DEFENSE AS A PERCENTAGE OF GNP HAS DECLINED. A MORE COMPLETE EXPOSITION OF OUR VIEWS CAN BE FOUND IN THE ARTICLE BY [REDACTED] IN THE JOINT ECONOMIC COMMITTEE STUDY CITED IN THE REFERENCE.

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END OF MESSAGE

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CITE [REDACTED] 25X1A

TO: DIRECTOR,

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DDI

FOR [REDACTED]

1.

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IS INTERESTED IN OBTAINING AGENCY'S ESTIMATES ON HOW CHINESE APPORTION DEFENSE EXPENDITURES. ACCORDING TO [REDACTED] A STUDY OF THE CHINESE ECONOMY PUBLISHED BY THE JOINT ECONOMIC COMMITTEE OF THE US CONGRESS INDICATED THAT CHINESE DEFENSE EXPENDITURES LAST YEAR AMOUNTED TO \$US 12 BILLION OUT OF AN ESTIMATED GNP OF \$US 220 BILLION. [REDACTED] NOTED THAT A GREAT DEAL OF SPECULATIVE ANALYSIS WAS INVOLVED IN SUCH ESTIMATES, BUT WAS HOPEFUL AGENCY COULD PROVIDE [REDACTED] ITS ESTIMATES OF HOW MUCH THE CHINESE APPORTION TO THE THREE SERVICES AS WELL AS HOW MUCH THEY ARE SPENDING ON RESEARCH AND DEVELOPMENT, EQUIPMENT PROCUREMENT, FACILITIES, AND PERSONNEL. [REDACTED] NOTED THAT THERE WERE DIFFERENCES [REDACTED] ON CHINA'S DEFENSE BUDGET, STATING THAT HE PERSONALLY BELIEVES THAT THERE WAS HARDLY BEEN ANY INCREASE AT ALL IN DEFENSE SPENDING AND THAT DEFENSE AS A PERCENTAGE OF

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THE GNP HAS DECLINED, HE THOUGHT DATA PROVIDED BY WASHINGTON
COULD HELP RESOLVE SOME OF THESE DIFFERENCES.

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2. [REDACTED] WOULD APPRECIATE ANY INFORMATION HQS
CAN PROVIDE. [REDACTED] IS A PARTICULARLY USEFUL AND COOPERATIVE
CONTACT, E2 IMPDET.

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